PURPOSE

The County Debt Service Fund provides for the payment of principal and interest on long-term debt of the County. These debt service payments are usually for a period of 20 years before the bonds are fully repaid.

BUDGET COMMENTS

Fund Balance -The fund balance was initially set up to stabilize ongoing contributions from the General Fund to modest annual increases that could occur without increases in the tax rate. This process continues, with the fund balance acting in concert with on-going contributions from operating revenues to manage increases in debt service resulting from new financings.

Revenues - Contributions from the operating budget, with annual increases of between 5 percent and 6 percent to match revenue growth without a tax rate increase, are shown as the major source of funding for debt service.

For the three years beginning in FY 2003, the equivalent of two-cents of the real estate tax is proposed as an additional annual contribution to maintain the fund balance despite increasing debt service spending that will result from three proposed debt financings. To avoid a tax rate increase by investing two-cents in this fund balance, the County's General Fund spending plan assumed a two-cent reduction.

This additional annual contribution of two-cents on the tax rate is proposed to stay in effect for three years, FY 2003, FY 2004, and FY 2005. It is expected that, beginning in FY 2006, this two-cent equivalent will transfer back to the General Fund operating budget to help offset the additional costs of opening a new high school in the summer of 2006.

Expenditures - Much of the spending is associated with the continued payment of principal and interest for bonds issued since 1987. There are several new initiatives that are programmed into the debt service schedules for the upcoming years.

Beginning in FY 2003 - the assumption of debt incurred by the Transportation Improvement District (T.I.D.) that had been incurred for the construction of the extension of Monticello Avenue. The incremental ten-cent real property tax paid by the T.I.D. property owners will also be eliminated.

Also beginning in FY 2003, lease-financing costs of a new 800-MHz emergency communications system will be added, with interest only in FY 2003 and interest and principal payments expected in FY 2004. The financing costs are estimated with a $8.5 million borrowing at 6 percent for 20 years.

Beginning in FY 2004, new debt service costs are added anticipating a new alternative education/student services building. The financing estimates assume a $3.5 million borrowing at 7 percent interest for 20 years using Virginia Public School Authority (VPSA) bonds.

Beginning in FY 2005, new debt service costs are added anticipating a new high school of some kind. The debt service assumption is a General Obligation or VPSA bond issue, 6.75 percent, 20 years, for $35,000,000. Interest payments only are expected the first two years, followed by relatively level debt service payments for 20 years until the bonds are repaid.

A schedule showing the expected impact on the Debt Service Fund through FY 2010 is shown on page F-10.